

Market Comment | Risk-off sentiment fades with encouraging company earnings

Global Financial Markets Unit
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- **Financial markets recovered the risk-on mood of last week, with major risk asset prices showing healthy gains across the board**, while safe-haven assets were less in demand: gold (-0.9%), US 10Y yield (+4 bps), dragged down by today's better-than-expected reported earnings for companies.
- The major indices all rose. **Positive earnings reports from US companies today triggered the rise in the major US indices** (S&P500 +0.5%). Moreover, the positive opening of the US equity markets drove European equity indices higher (Euro Stoxx, +1.2%; Dax, +1.6%; Ibex35; +1.1%). Most Italian bank stocks performed positively, except for Monti dei Paschi (MPS), as the government is addressing new formulas to deal with MPS' NPL problem that would not require pre-approval from Brussels, such as buying out MPS' bad loans at favourable rates with money from private institutions (using the existing Atlante fund, increasing it by €4.25bn). Even so, MPS has to raise €7bn in new capital, which might be too demanding given the current situation.
- In line with the lower risk aversion, **safe-haven yields of 10Y Government bonds increased across the board (US +4 bps, Germany +2 bps, UK +3 bps), whereas European peripheral bonds benefited from the search for yield strategies**, with 10Y Government bond yields declining, especially in Spain, underpinned by the announcement of details of the new fiscal measures to cope with the deficit, aiming to avoid the fine by EU authorities to be announced next week (Spain -3 bps; Portugal, -1 bps).
- In FX markets the **US dollar depreciated against the British pound** (+0.47%) but appreciated against the euro (-0.15%) and against the Japanese yen (-0.48%). EM currencies experienced mixed performances, with no big movements against the USD (COP +0.3%, MXN -0.5%) despite the increase in oil prices (+1.6%), underpinned by the bigger-than-expected fall in inventories.
- **S&P downgraded Turkey's rating to BB from BB+ , with negative outlook, pushing it further into speculative grade**, adding to pressure on Turkish assets. Turkey's 10Y yield rose (+32 bps to 9.92%), the 5-year CDS increased (+30 bps), the Turkish lira dropped again sharply (-1.28%) and the equity index ended the day lower (BIST100 -1.67%).

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Table 1

CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

***S&P GSCI with one day delay

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